RESEARCH-DRIVEN | LONG-TERM FOCUSED

Northstar Asset Management
Market Report: Q1 2018

The Northstar Market Report for the first quarter of the year should appeal to investors that seek stock and fixed income insights, to worried land owners in SA as John Steenhuisen provides an insiders perspective on expropriation and to our existing and prospective clients on Northstar's services, which we are constantly improving. We believe the content is rich and diverse and should appeal to readers with differing needs.

THE BIG PICTURE

DOES QUALITY INVESTING WORK?

By Adrian Clayton (Managing Director & CIO)

'Long-term exposure to quality assets where value exceeds price' defines our investment belief system and our behavior too in that it determines the characteristics we seek in companies that are allowed into our clients' portfolios.

An investment philosophy shouldn't simply be some idealistic dream, it should be grounded in fact with credible evidence demonstrating that adopting the approach results in consistent long-term investment performance for clients. With this in mind, in Big Picture Thinking for Q1 2018, we address why we believe and trust our philosophy.

Why we are long-term focused?

In the graph below (Figure 1), we plot a portfolio of high quality companies over different time periods. The black line is the performance of the portfolio over 1- year rolling periods (any point on the graph shows the performance of the portfolio over the past 12 months), notice how volatile returns are with losses and gains quite random. Predicting returns for the following year is close to impossible.

The blue line is the same portfolio but measured over 3-year rolling periods. Quite clearly, the portfolio has a smoother return profile and remarkably, does not produce a negative return over any 3-year rolling period since 2003.

7-year rolling returns (red graph) for the portfolio shows high levels of predictability with relatively smooth returns and no negative 7-year rolling periods.

Our work proves unequivocally that being long-term focused places the odds in our clients' favour of generating consistent investment returns. For exactly this reason it is a key dimension of Northstar's philosophy!

What is the difference between Value investing and owning Quality companies at the right price?

At Northstar, we seek to own quality companies when they are undervalued by the market. This is quite distinct from owning poor conditioned businesses or cigar butts (as Warren Buffett described some of the investments sought-out by Benjamin Graham) which are colloquially referred to within the investment world as 'value' stocks. Value in-

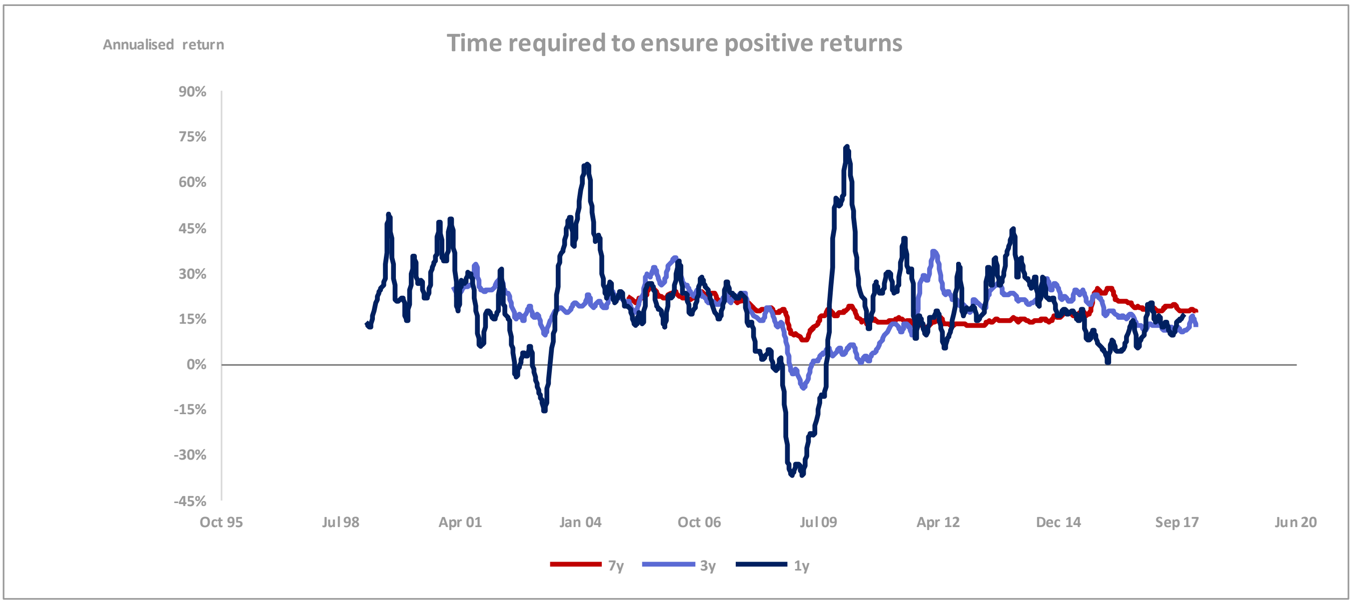

Figure 1. Company portfolios over different time periods. Source: Bloomberg, Northstar Asset Management.

vesting is in our minds, more about the 'cheapness' of an asset and asks few questions about the quality of a business. It is our contention and experience that cheap can prove dirty and dangerous! Our approach is first about establishing the quality characteristics of a company before we concern ourselves whether it is undervalued.

Why we believe in Quality at the right price?

Northstar's reason for seeking-out undervalued quality companies rather than cigar-butts is three-fold. Firstly, quality investing sits comfortably with us as our experience of other approaches is that the probability of success is lower. Secondly, we believe that quality is a greater moat than 'cheapness'. Lastly, our empirical data shows that it works – buying quality businesses that are mispriced generates higher returns than the market over time!

The graph below (Figure 2) shows the performance of the S&P 500 (US benchmark index) against our back-tested portfolio of quality companies purchased when they meet our valuation screening criteria. We look at various rolling periods, ranging from 1 to 15 years. What the graph demonstrates vividly is that whichever time period is involved, the quality portfolio at a reasonable price outperforms the S&P with respect to upside returns and remarkably, has lower downside than the S&P too. In fact for periods greater than 5 years, the Northstar quality portfolio produces no negative rolling periods.

We have no doubt that owning quality companies at the right price is the key to successful investing and consequently, each and every investment within our clients' portfolios are tested vigorously to ensure that they meet the numerous benchmarks of quality and value.

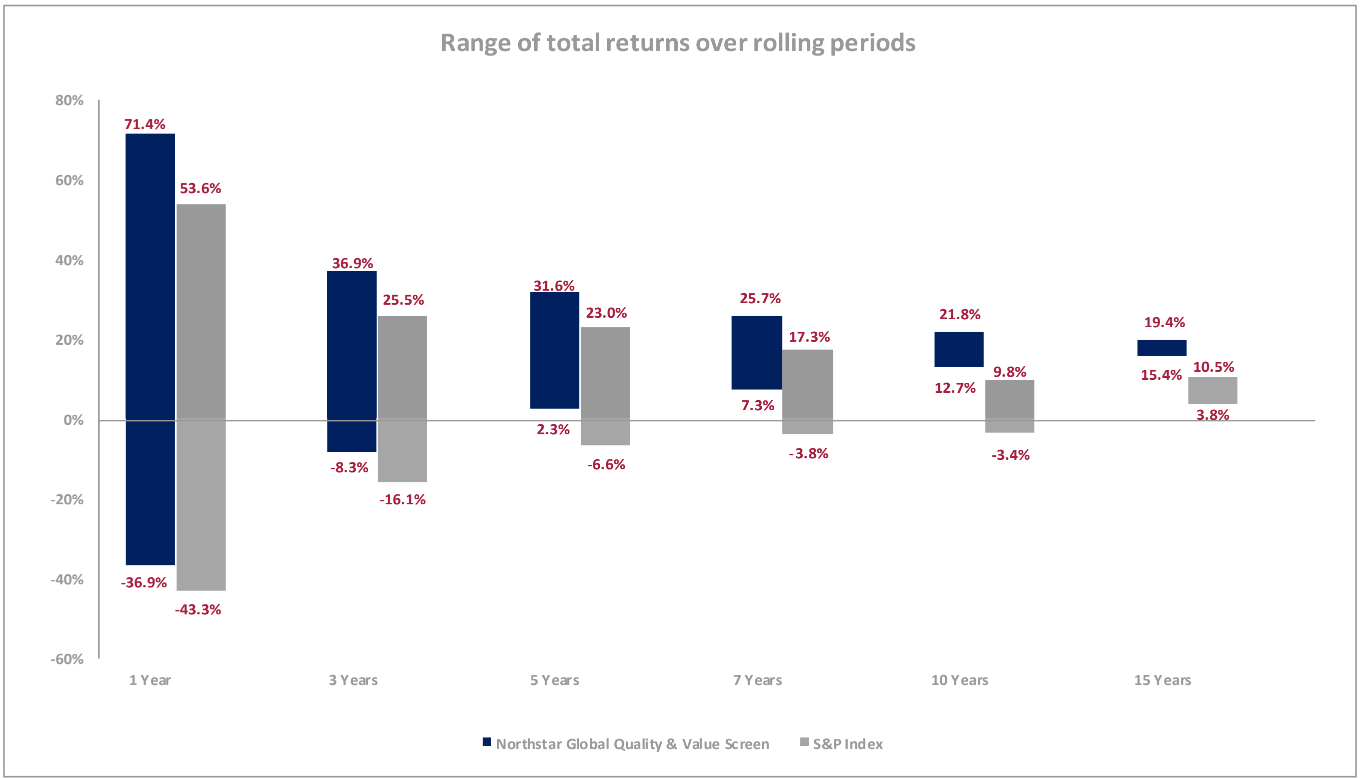

Figure 2. Performance of the S&P 500 (US benchmark index) against our back-tested portfolio. Source: Bloomberg, Northstar Asset Management.

FROM THE ANALYSTS: EQUITIES

AECI – NOT JUST AN EXPLOSIVE BUSINESS

By Marco Barbieri (Director SA Equities)

AECI is South Africa's largest explosives manufacturer and a dominant player in the specialty chemical industry. The group has a long history in the South African mining landscape having been formed in 1924 with its main purpose to provide explosives and detonators to the gold and diamond industries.

While explosives and mining chemical solutions remain the largest contributor to operating profit (69% in 2017), the group has been diversifying its revenue stream after the financial crisis (2009) through a series of acquisitions both locally and internationally. The introduction of several new strategic pillars was aimed at reducing exposure to the highly cyclical South African mining industry to gain exposure to new growth areas.

New strategy enhancing the group's moat

AECI has seen a strong improvement of its mining solutions business over the past year driven by a recovery in commodity prices and increased output from miners. Operating margins have improved in 2017 as operations in South Africa, Asia Pacific and the Rest of Africa recorded robust volume growth.

Notwithstanding improved trading conditions, the South African mining explosives industry, while fairly consolidated, is highly commoditised despite efforts from players to improve customisation and service offerings. Customer concentration and intense competition, in our opinion, have made it difficult for explosive companies to maintain a consistent competitive advantage in the industry. Operating margins, (Figure 3) have tended to be volatile through the cycle and not shown structural improvements despite efforts from AECI and other players to automate production and increase capacity utilisation of their facilities.

AECI's diversification drive, although in its infancy stage, is compelling considering the lower returns on capital and margins of the SA explosives business compared to its chemical business cluster (Figure 4). The revised strategy has resulted in the formation of five operating segments which offer in our opinion exposure to industries with better growth opportunities and competitive dynamics, namely: mining solutions, water and process, plant and animal health, food and beverage, chemicals (Figure 5).

The improved moat stems primarily from two dynamics, exposure to a larger and more diverse customer base and participation in industries with higher levels of specialisation which lend to better pricing power.

In line with its strategic framework, AECI in 2017 concluded two acquisitions which will significantly impact the group's results going forward. The first is Schirm, a German agrichemical manufacturer with a footprint in both

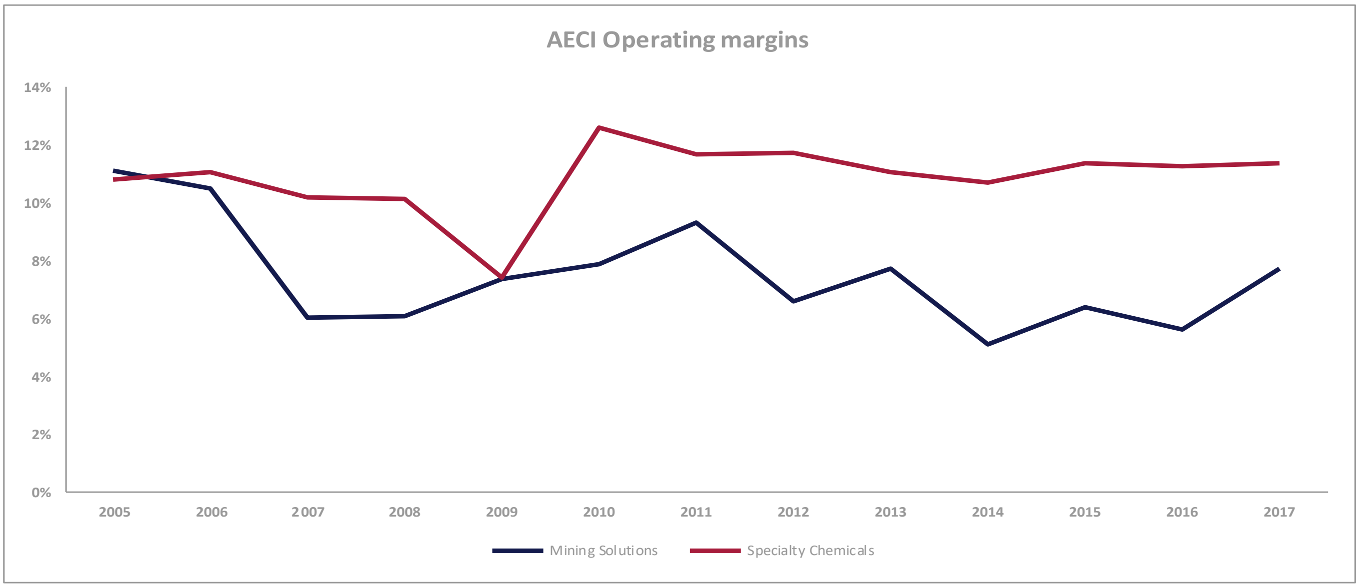

Figure 3. AECI Operating margins. Source: Company financial reports, Northstar Asset Management.

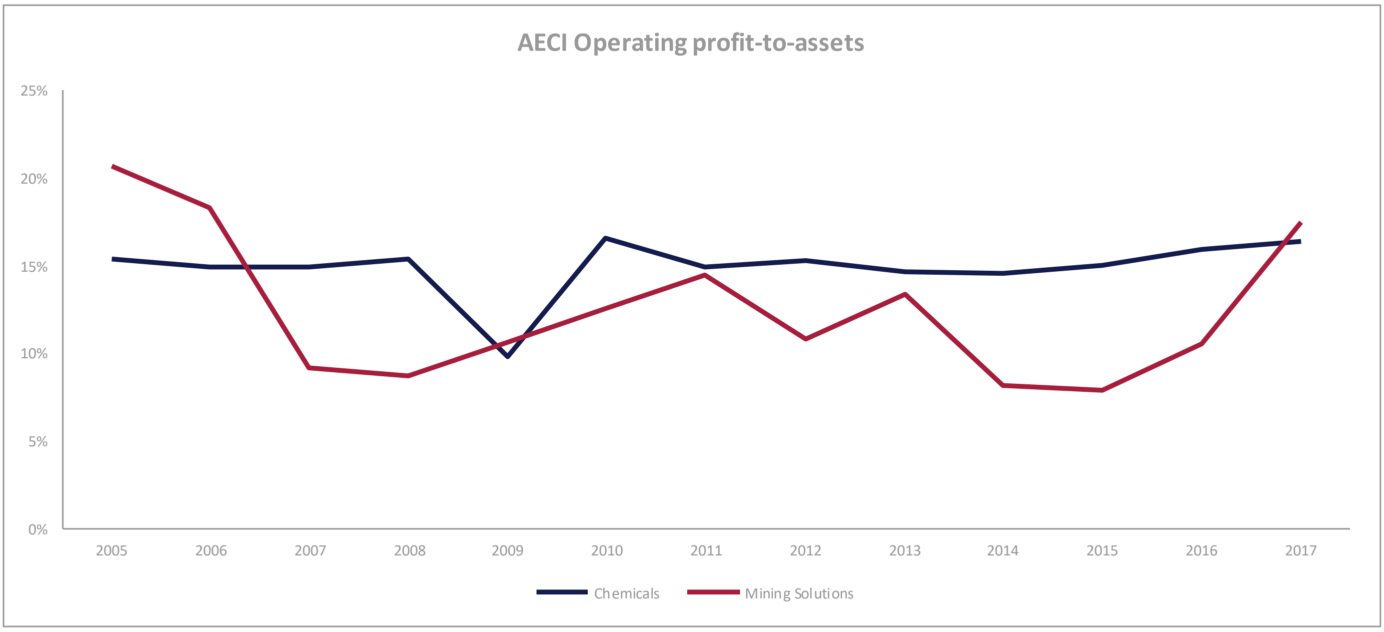

Figure 4. AECI Operating profit to assets. Source: Company Financial Reports, Northstar Asset Management.

Germany and the US. It was acquired for a consideration of ZAR1.9bn on an EV/EBITDA of 8x which compares favourably to other European chemical companies that trade on 8-10x multiples. Management sees several synergistic opportunities, including the replacement of some raw materials currently imported into SA from third party suppliers as well as the substitution of SA exports to European clients.

The second transaction relates to the acquisition of Much Asphalt (still awaiting competition approval), which according to AECI is South Africa's largest supplier of hot and cold asphalt to the road construction industry. The transaction consideration of R2.2bn implies an EV/EBITDA of 7x (compared to AECI's trailing multiple of 6.6x). The business will be integrated into the chemical cluster and management is confident of synergies in SA as well as being able to take advantage of opportunities in Africa.

Management team

AECI's management team is well established with Mark Dytor having assumed the role of CEO in 2013 and Mark Kathan occupying the role of CFO since 2008. The executive has been, in our opinion, effective in managing costs and working capital over the past five years which has translated into strong free cash flow growth and improved returns on assets, while maintaining an ungeared balance sheet.

While we are supportive of management's acquisitive strategy, we are cautious of its execution as it introduces two new risks to our investment case. The first is the potential to overpay for acquisitions which may adversely impact returns on capital. The second is increased gearing (debt) in an inherently cyclical business. While we acknowledge these risks and are monitoring this very closely, we believe that the management team has so far, maintained financial discipline, set realistic targets and communicated transparently with investors. A final consideration to note with respect to corporate steering, is how the AECI management team's incentive structure works, it is largely driven by HEPS

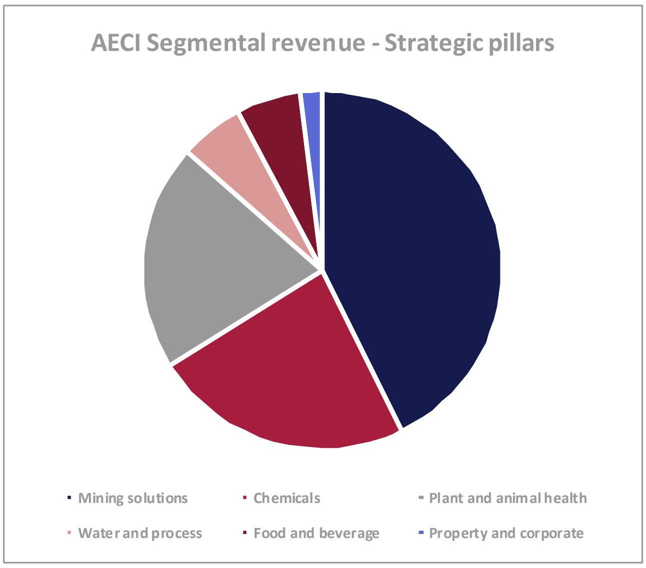

Figure 5. Segmental Revenues. Source: Company Financial Reports, Northstar Asset Management.

(Headline Earnings per Share) growth. We believe this is an incorrect incentive approach as it encourages the pursuit of value destructive acquisitions. At the heart of any successful management incentive structure in our opinion, should be growth in shareholder returns on capital as well as growth in free cash flow.

Valuation

The group is highly cash flow generative, it trades on a free cash flow yield of approximately 5%. With respect to other valuation metrics, on an EV/EBITDA basis, AECI is rated at 6.1 times against its long-term average of 6.5x, the P/E is currently 12.6x – we consider this fair.

FROM THE ANALYSTS: EQUITIES

BRITISH AMERICAN TOBACCO—DAWN OF A NEW GENERATION

By Lize Coetzee (Analyst)

Legacy moat

British American Tobacco (BAT) has produced double-digit returns on capital for the last decade. We ascribe this to four factors. Firstly, being the third largest tobacco producer globally in a highly consolidated market; secondly, it's significant cost advantage generated through economies of scale throughout its supply chain; thirdly, industry regulation limiting new competition and finally, the company's Global Drive Brands fostering brand loyalty which propels pricing power of its products.

The abovementioned factors all relate to BAT's legacy portfolio of combustible cigarettes. With regulatory bodies clamping down on tobacco usage across the globe, tobacco companies are selling fewer cigarettes – these businesses are experiencing retreating volumes of approximately 2% to 3% per annum. Whilst fewer sticks are being sold each year since 2010, British American Tobacco and the other dominant players in the industry have almost on an annual basis increased the prices of cigarettes – a sign of their significant pricing power.

New generation products

Due to the inevitable decline in industry volumes, big tobacco has been investing actively in New Generation Products (NGP's) – these are 'lower risk' alternative products to traditional cigarettes. The hope is that NGP's garner less negative interest from regulators and over time, broad usage will increase industry volumes once more.

Industry headwinds

A number of events relating to BAT's legacy portfolio and sustainability of the new generation franchise over the past year, have led to the underperformance of the BAT share price (Figure 6). We will endeavour to cover these all briefly and summarise why we believe that the investment case remains sound.

Reynolds American acquisition – value-adding or bad timing and wrong geography?

BAT announced the acquisition of the remaining 58% (it previously owned 42%) stake in Reynolds American (RAI) in 2016, at a 26% premium to the ruling price per share at the time. The initial 42% was acquired in 2004 when the US arm of BAT merged with RJR Tobacco forming the country's second largest tobacco manufacturer.

The United States has historically been and remains so, a very lucrative market for cigarette companies (Figure 7), due to limited increases and stability of excise taxes, coupled with a large middle class, which is able to absorb above-inflation price increases in cigarettes.

In addition, the market is highly consolidated with Altria (51.4%) and RAI (34.5%) having 85.9% market share. Reynolds also owns three of the top four brands and the number one brand in the premium menthol category.

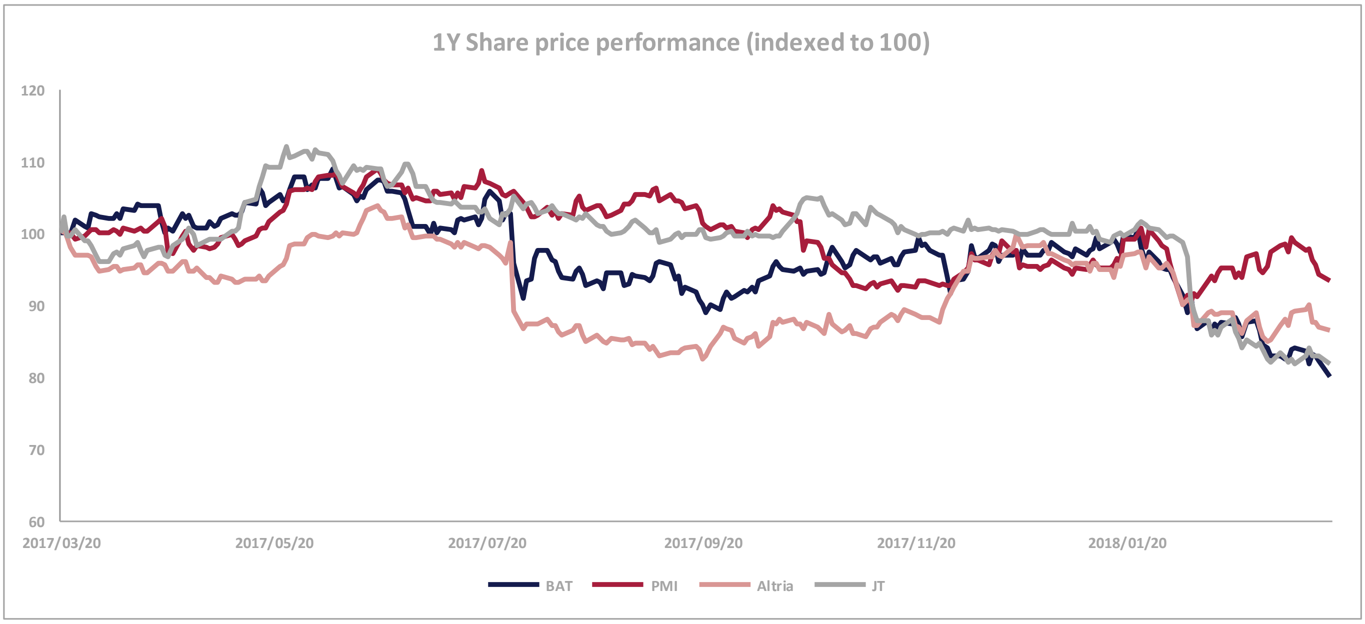

Figure 6. Year 1 Share Price performance. Source: Bloomberg, Northstar Asset Management.

These above-mentioned factors were credible reasons for British American Tobacco acquiring the balance of Reynolds it didn't already own. However, the market initially responded negatively to the deal based on the hefty price BAT paid to acquire RAI's assets. The $59.64 per share offer implied a P/E multiple of 22.4x or an EV/EBITDA multiple of 16.3x – a significant premium to peers at the time of the offer. In addition, a mere month after the deal closed, the US Food and Drug Administration (FDA) announced it was exploring measures to limit nicotine levels in cigarettes as well as banning the use of flavours (including menthol) in combustibles (more detail below). The latter cast doubts on the timing of management's decision to increase its exposure to North America, at the expense of its faster growing emerging market portfolio.

combustible cigarettes and dealing with the alleged negative impact of flavours in increasing prevalence of smoking among young people.

The BAT share price reacted negatively to this news due to 1) its increased exposure to the US after the RAI acquisition, with 11% of volumes, 38% of revenues and 46% of operating profits now at risk and 2) RAI's highest volume (40%) and profit contributor being Newport, a premium menthol brand.

While we concede that the FDA poses an ongoing risk to BAT's US business, history dictates that the implementation process and final version of the regulation rarely resembles the initial proposal. It has always been softer than the first take! Additionally, implementing regulation is a multi-year process and under current governance rules, the FDA does not have the authority to ban any tobacco product or to reduce nicotine levels to zero. Nevertheless, to fully appreciate the risk, we have revalued the business for a worst case scenario and believe that the current share price implies little value for the US business. Given the industry dynamics and historical performance, we believe this presents a favourable risk versus reward profile.

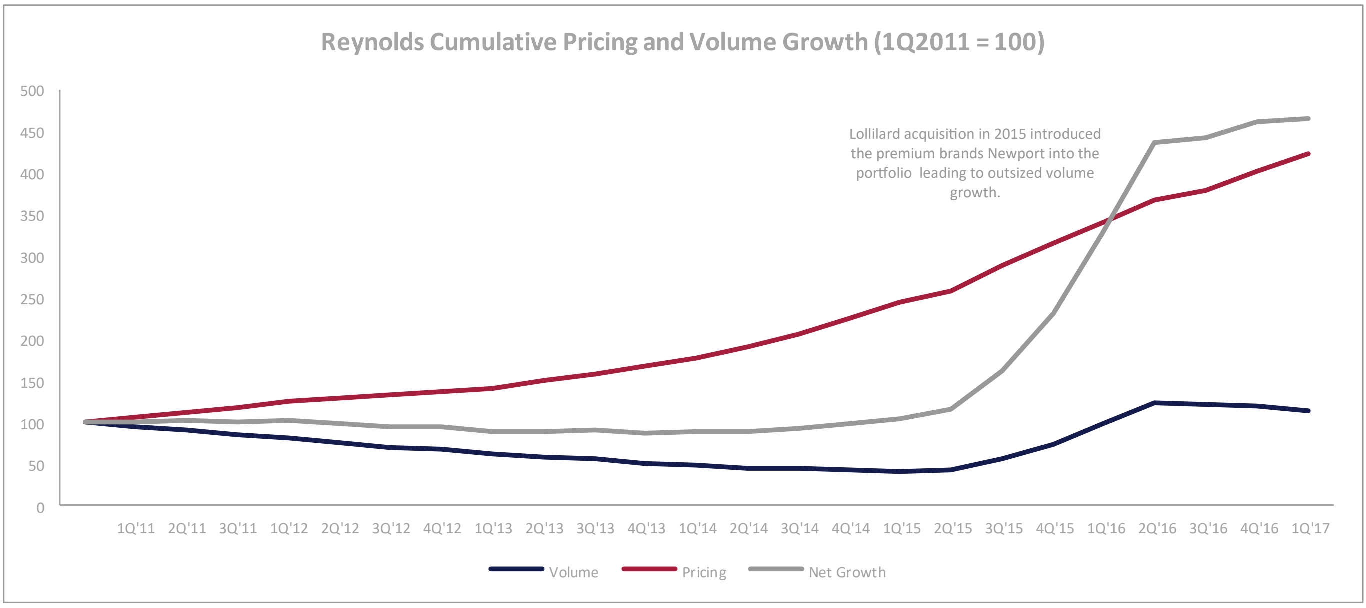

Figure 7. Reynolds Cumulative Pricing and volume growth. Source: Company Financials, Northstar Asset Management.

We believe that the acquisition has the potential to be profit and cash-enhancing due to improved scale efficiencies (Management guided for $400 million of cumulative cost savings per annum). RAI's superior cash generation also increases the amount available for reinvestment in new technologies, without the need to rely on increased debt funding. In addition, it increases BAT's potential to compete globally in new generation products as RAI's NGP vapour product, VUSE, already has a 40% market share in the US – a technology that can be rolled-out to other geographies.

Regulatory and legal – the FDA steps in and possible spill-over from a class action suit

The FDA clamp-down

The FDA was granted the explicit authority to regulate tobacco in 2010 in the United States. A new ruling (as of 2016) extended the FDA's regulatory authority to all tobacco products, including e-cigarettes. In July 2017, the FDA released a comprehensive plan for tobacco and nicotine regulation, with a focus on lowering nicotine levels in

Canadian class action law suit

BAT's Canadian business has been one of the defendant's in a Canadian class action lawsuit related to two groups of plaintiffs: those that have become seriously ill from smoking and those that are addicted to smoking. In 2015, the Quebec Court ordered the three largest companies in Canada to pay CAD15.6 billion in damages to the plaintiffs.

BAT Canada's share of the damages was CAD10.4 billion. An appeal was heard in November 2016 and the decision is still pending. Even though the assets of the Canadian subsidiary are ring-fenced from claims against the parent company, there is a nervousness that if the judgement is upheld, it will set a precedent for other countries (and larger profit pools) to follow suit.

Unfortunately, it is nearly impossible to assign a probability to the likely occurrence of this event, consequently our approach is one of being cognisant of the risk it presents to the business case.

New generation products – a true replacement for legacy portfolio?

New Generation Products, or NGP's, primarily come in two forms: Vapour and Tobacco Heating Products (THP). The categories were built to address different needs across a multitude of geographies and cultures and have vastly different profit profiles and competitive landscapes.

The common thread among the two, is the claim from tobacco companies that there is reduced risk of use to the consumer. This is what big tobacco is lobbying to regulators with the hope that it will allow them to increase their addressable market and reduce taxes. Lower tobacco content in NGP's attracts lower taxes.

BAT estimates that the NGP global market size in 2017 was £14 billion split roughly 60/40 between vapour and THP's. It further expects the market to grow by 114% and in 2020 to be at £30 billion, split equally between the two categories. There is an upside risk to this estimate due to the fact that THP may not legally be sold in the United States currently. Multiple applications for eligibility are in progress and once clarification is received, the addressable market could increase substantially.

At the forefront of the NGP market share race is Phillip Morris International (PMI) and BAT. These two tobacco giants are following two vastly different strategies with PMI putting all its eggs into one basket with its THP, iQoS, and BAT approaching it with a diversified strategy, with both a THP offering (glo) and a portfolio of Vapour products.

There is a perception that over time THP will be the only substitute for combustibles as it provides a similar experience to traditional smoking. Given the differences in adoption rates in Asia (high) and Europe (more moderate), the advantages of a diversified portfolio is clear in terms of expanding the addressable market. See Figure 8 for BAT's estimates.

THP will be the higher margin category, as it follows the razor blade model, where the manufacturer makes little profit on the device (glo or iQos), but the consumable (the "cigarette") attached to the device provides a high margin, annuity-like revenue stream.

Vapour devices largely operate an open eco-system and customers can easily switch between the consumable manufacturers. The market is also highly fragmented with low barriers to entry. BAT has already started to acquire smaller vapour companies in an effort to consolidate the category. Over time BAT's scale will allow cost economies and it is likely to take market share from smaller competitors in a growing market.

We believe that BAT's diversified strategy will bear fruit over time as it increases the respective addressable markets across geographies. Given the limited regulation and taxes on the new products currently, we consider it inevitable that this will become more onerous over time, however, the market growth in NGP's has been impressive and assuming regulators do not completely stifle this, NGP's in our modelling, will become a significant contributor to volumes and profits of the BAT portfolio over the next decade.

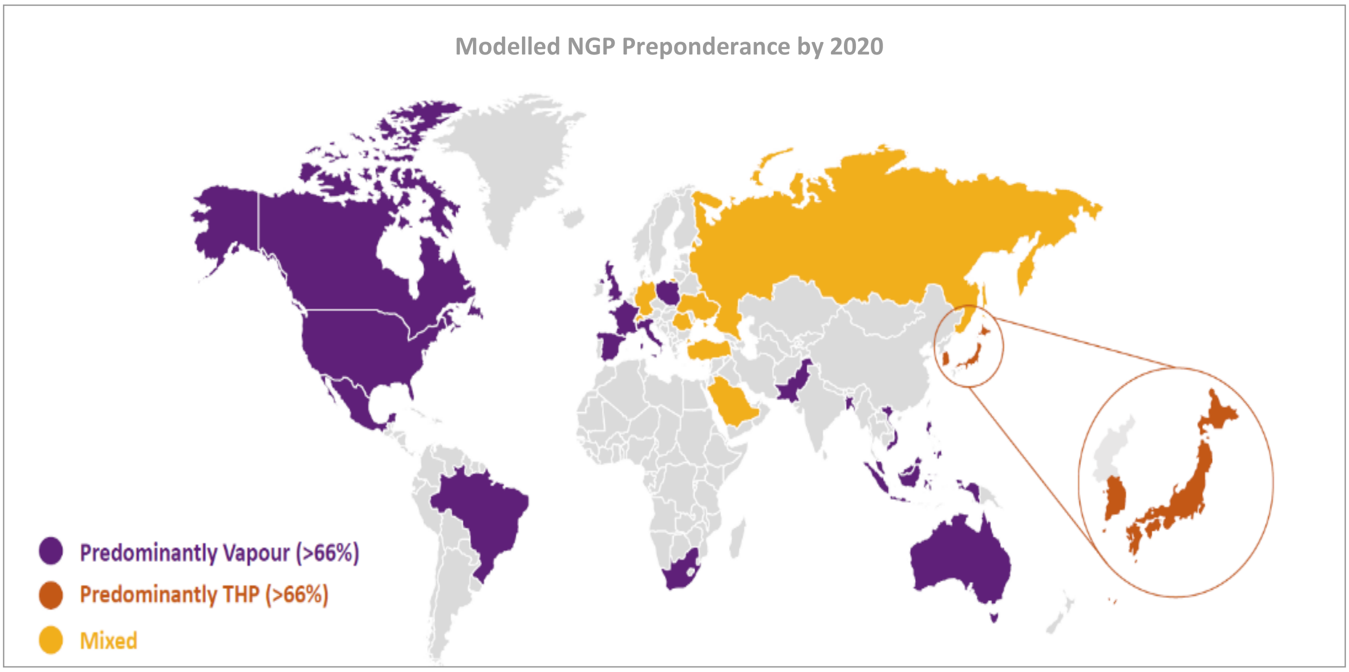

Figure 8. Modelled NGP Preponderance by 2020. Source: BAT 2017 Investor presentation.

Sound investment case at a favourable price

After careful consideration of the risks facing the tobacco industry and British American Tobacco within this environment, we believe the following summarises the business today:

BAT is a dominant global tobacco producer with best in class exposure to emerging markets and a highly profitable developed market legacy combustible business. The Global Drive Brand portfolio underpins the company's wide moat in an industry where brand loyalty and intellectual property are key drivers of pricing power. Industry regulation, and in particular advertising bans, creates high barriers to entry in a consolidated industry. BAT also has a significant cost advantage – economies of scale are generated throughout the supply chain in production of combustibles. The company's management has an excellent track record of profitable capital allocation and good operational ability. Finally, the NGP portfolio provides upside to the declining industry volumes in the traditional combustibles market.

Despite the myriad of risks, we believe that the legacy competitive advantage remains strong and that management's track record of investing profitably will be mirrored in its NGP portfolio over time. Accounting for these many factors, we contend that the market is undervaluing the business significantly at the current share price of 42 pounds.

FROM THE ANALYSTS: FIXED INCOME

WHAT IS PRICED INTO SA BONDS?

By Mark Seymour (Director Fixed Income)

Global bond markets – noisy volatility

Fixed income investors have experienced a rollercoaster ride of events since 2012, which is when South Africa's credit rating started to slide, highlighting the importance of adhering to a set of sound investment principles in realizing required returns without incurring permanent capital loss. There have been a number of unpredictable turn of events, pushing and pulling market prices in all directions, causing investors to doubt whether there is actually a link between price and value.

This brings to mind the parable of the "Farmer's fortune", a story about an old farmer who had worked his crops for many years. One day his horse ran away and when his neighbors heard the news, remarked sympathetically "what bad luck". "Perhaps," the farmer replied. The next morning, the horse returned home with three wild horses. "What great luck!" his neighbors exclaimed. "Perhaps," replied the old man. The following day, his son tried to ride one of the untamed horses, was thrown, and broke his leg. Again, the neighbors came to offer their sympathy. "Perhaps," answered the farmer. The next day, military officials came to the village to draft young men into the army. Seeing that the son's leg was broken, they passed him by. The neighbors congratulated the farmer on how well things had turned out. "Perhaps," said the farmer.

Forces behind the moves

In a similar fashion, a number of forces have caused local and offshore bond yields to seesaw from one extreme to the next over the last 6 years. In summary.

- Low yields in early 2012 (accommodative monetary policy, low inflation and slow growth in the US)
- Rising yields in 2013 (tapering of the US quantitative easing programme)
- Falling yields in January 2015 (declining oil price, fear of European recession and slowing global growth)
- Rising yields in 2015 (anticipation of rate normalisation in the US)
- Rising local yields in 2015 (declining credit rating as a result of deteriorating debt metrics, waning growth and the risk of policy implosion due to poor leadership)
- Falling bond yields in emerging markets in 2016 (stabilising commodity prices, weaker US dollar and substantial yield gap between developed and emerging market bonds)
- Falling US bond yields in the first half of 2017 (North Korea related geopolitical risk)
- Rising local bond yields in 2017 (credit rating cut to junk by S&P and deteriorating local fundamentals)

Moody's and South Africa's credit rating reprieve

Local bond yields are falling once again, and this time it comes on the back of the latest credit review by Moody's; South Africa has retained its Baa3 investment credit rating with the outlook changed to stable. This is exactly the news that South Africa needed and justifiably, the bond market is in rally mode. We find ourselves, once again, at a juncture where we, like the farmer and his fortune, need to assess the latest turn of events. What is priced into South African government bonds?

The valuation story around South African bonds

It is reasonable to work out the value of a local government bond based on the required yield spread above a US bond, which compensates you for the inflation differential and the South African specific risk over a particular period. US 5-year bond yield (2.64%) is anticipated to continue rising, as interest rates normalize in America and the consensus view in the market is that yields will reach 3.2% over a period of two years. In addition, the inflation differential between SA and the US, is expected to rise from 2% to 2.9%, as SA inflation rebounds off a cyclical low (4.0% to 5.2%) and US inflation ticks up from 2.2% to 2.3%.

The most import factor we can adjust for in the wake of the recent Moody's credit review is the South African specific risk, which we approximate by the price of a 5y credit default swap (5y CDS). More recently, the 5y CDS spread for South Africa has widened to 161bps, which is between 60bps and 100bps wider than other countries on the same credit rating as SA. Admittedly, the average CDS spreads for all countries are at cyclical lows, however it is reasonable to assume a 5y South African CDS spread of 150bps on a forward looking basis.

The current fair value of the South African 5y bond yield is 6.05% based on the sum of 165bps CDS spread + 180bps inflation differential + 260bps 5y US yield vs. the current SA 5y yield of 7.4%. Looking two years ahead, the fair value yield of the SA 5y bond is 760bps. This assumes no further deterioration in South African specific risk with a CDS spread of 150bps plus an increased inflation differential of 290bps and a higher 5y US bond yield of 320bps. See Table 1.

On this basis, there is scope for the SA 5y bond yield to rally lower in the short-term, however the risks two years out are:

- Rising US bond yields (on the back of rising US interest rates)
- Rising local inflation
- Normalising emerging market risk premiums

With the latest positive Moody's credit review, it is safe to assume South African specific risk has been contained for the moment, which is our good fortune.

South African 5y bond valuation	Current (March 2018)	Forecast (March 2020)
5y SA CDS spread	**165bps**	**150bps**
SA CPI	*400bps*	*520bps*
US CPI	*220bps*	*230bps*
Inflation differential	**180bps**	**290bps**
5y US bond yield	**260bps**	**320bps**
Fair value SA 5y yield	**605bps**	**760bps**
Current SA 5y yield	**740bps**	**740bps**

Table 1. South African bond valuations

CLIENT CORNER AND NORTHSTAR NEWS

OUR OFFICE MOVE AND STRATEGY AROUND CLIENT CONTACT

By Matt Bertram (Financial Director & COO)

Remaining dedicated to our value system

Considering Northstar Asset Management's mantra is: 'Consistent long-term investment performance underpinned by exceptional client service', our clients should expect all our behaviour to revolve around the key concepts of generating investment returns and improving service to you.

Investing in our business

On this note, over the last year, Northstar has continued to invest in the business along these key value drivers for our clients. This includes hiring experienced heads in both the research and client service teams, systems development and then very recently, moving into offices that cater for our specific functional needs and which allows for some growth. We mentioned 'some growth' as we remain acutely aware of our value system, a tenet of which is that we strive to be the 'best and not the biggest manager' and our new space is functionally designed for dedicated client service in one area and for the cerebral nature of research in another. Conveniently, our address has not changed as we swapped offices with the neighbours.

Business improvements

In addition to numerous incremental systems improvements across the business, we are starting to see some of the fruits of this investment, which includes:

- Ever deeper research insights from our now experienced investment team
- A significantly larger database of companies that we have built research models on
- Sustained exceptional offshore investment performance
- More consistent domestic investment performance
- Higher levels of specialisation from employees with more defined roles
- Consistent client and advisor feedback of excellent service delivery and care
- Improved client reporting – we aiming for online access for our clients and advisors by the end of 2018
- Continued sustained client growth that assists us to deliver to all our clients on our goals

Advisor support

Advisors are key gate keepers within Northstar's value chain; they play a critical role in client matters and are also the dominant providers of clients to our business. Consequently, we have moved to better support financial intermediaries. In January 2018, Peter Steele joined Northstar with a mandate to improve our interactions and support of advisors. In addition, we have sought ways to help advisors spend more time advising their clients and less time having to explain complex industry products to clients. To achieve this, our approach has been to offer advisors various client solutions. These are outcome-driven and provide a key risk/return framework to assist an advisor to match client needs to a return outcome. Working with advisors, Northstar can now offer:

- Model portfolio solutions which include income, stable, balanced and equity.
- A simple to follow brochure that explains how we manage money.
- A proposal document which Northstar prepares with the advisor for the client.
- Legal and tax efficient mechanisms to deal with untenable CGT in share portfolios.
- Ongoing support of the advisor in terms of client needs.

Forthcoming developments with respect to advisor support will include:

- Direct access to real time, online information on their clients' investments.
- The development of financial tools for key supporting advisors.

Northstar has been in business for over 20 years, a testament to our continual desire to work in the interests of our clients by always doing what we do, but better! We believe that 2018 is developing into a year where we are focusing on what counts – operating at the highest levels in all areas we can control, namely client service and producing outstanding research. The rest we leave to fate.

CORRIDOR CHATTER

WILL THE ANC EXPROPRIATE LAND WITHOUT COMPENSATION AGGRESSIVELY?

By John Steenhuisen (Political Analyst)

The great land debate and what's really at stake.

Boardrooms and dining rooms across South Africa have been abuzz with the news of parliament's recent passing of the EFF motion to look into amending section 25 of the Constitution (commonly referred to as the "property clause") to allow for the new *phrase de jour*: "expropriation without compensation". The EFF/ANC argument is that this clause of our constitution, which entrenches private property ownership in South Africa and prevents arbitrary deprivation of property, has been the impediment to meaningful land reform in South Africa. Both parties argue that if the state is allowed to expropriate property without compensation it can magically speed up land reform. Perhaps these parties would have been better advised to do some homework before embarking on this leap of logic.

The recently released High Level Panel report, spearheaded by the former president Kgalema Motlanthe no less, is a rather more sober diagnosis of where the real problems and bottlenecks to land reform exist. The report correctly identifies that the Constitution is not the impediment to land reform. It highlights rather that elite capture of the land reform process in South Africa, a chronic underfunding of the land reform process, (accounting for only 0.2% of national expenditure in the 2016/17 financial year) are actually to blame. This is coupled with the absence of an over-arching legislative framework to coordinate and guide the process. The Constitution, it seems, and section 25 in particular, have become the convenient scapegoat for a decade of government corruption, neglect and underfunding of land reform that has completely hobbled the process.

There are far wider implications for our country however if section 25 is amended. Urban dwelling South Africans should not be lulled into a false sense of security under the pretext that this latest initiative will only affect agricultural land and farms. The Constitution is very clear in section 25 (4)(b) where its states: *"property is not limited to land"*. This means that all private property as we know it is potentially at risk. This would include private residential property, intellectual property, shares on the stock exchange, art collections and could extend further into any right in such property. International experience shows a direct correlation between property rights and the prosperity of nations. Countries with strong property rights have a higher GDP, much lower mortality rate and higher levels of investment and far lower levels of poverty.

In countries that have chosen to erode property rights, the opposite is the case. A good example is Venezuela whose populist government similarly ventured down the path of expropriating properties and weakening property rights. That country now sits with a nation languishing in abject poverty, with an inflation rate hovering at a staggering 5673%. A little closer to home, the new administration of Zimbabwean President Emmerson Mnangagwa has admitted that the reckless land expropriation of the Mugabe regime played a major role in wrecking that country's economy and driving the nation into a spiral of poverty, disinvestment, inflation and debt.

There is not a person in South Africa who can credibly argue that black South Africans did not suffer from years of legislative dispossession and that the land ownership patterns do not remain skewed. It is absolutely right that we focus on addressing this problem. However, the answer does not lie in amending the Constitution, it lies in ensuring that we pass title deeds into the hands of as many previously disadvantaged individuals as possible. This will help address the ownership patterns as well as provide a tangible asset against which these property owners could leverage finance to either improve the property or provide seed capital for a business venture. But this is certainly not the EFF vision, their manifesto proposes that ALL land, owned by both black and white South Africans be expropriated and ownership will be vested in the state as the custodian of all land. Citizens would then be forced to lease property for renewable 25 year periods. This is not empowerment, it is enslavement, reducing citizens to a state of serfdom. The ANC position is less clear and they have provided scant detail of what they actually envisage achieving with this clause outside of the President Ramaphosa's oft repeated line that "as we take the land, we must make sure that the economy and food security is not compromised" Given the inefficiencies in a state that struggles to efficiently process anything from a birth certificate to a firearm license, the chaos that would ensue in processing millions of "land leases" is simply unthinkable. Equally so, it's hard to envisage an expropriation without compensation process that would not compromise the economy or food security.

What we need more than anything now is to attract investment to South Africa and lots of it. It is the only way to grow the economy and provide jobs for the almost 9 million South Africans who are unemployed. The uncertainty around expropriation without compensation does nothing to promote South Africa as a stable investment destination. We should be capitalizing on the "Ramaphoria" that has met the end of the Zuma presidency and the recent international ratings reprieve. We should not be jeopardizing it with populist policies. We can and must have meaningful land reform in South Africa and it should start with ensuring that the legislation envisaged in section 25(8) of the Constitution to achieve orderly and transparent land reform is actually enacted. We can also make a significant start by placing the millions of hectares of state owned land into the hands of citizens. All this can be done without unstitching the Constitution and compounding risk and uncertainty in an already shaky economy. Let's all hope that good sense prevails as the Constitutional Review Committee does its work.

STAFF MEMBER PROFILE

PETER STEELE

By Adrian Clayton (Managing Director & CIO)

When did your interest in financial markets start?

My interests in markets goes way back to the mid 1970's. I guess the beauty of this is that I've seen my fair share of cycles. The 1970's was a tough time for investors.

What did you study and why?

Due to my interests in people and financial markets I studied Personnel Management and completed a Henley Sales Management Diploma. I have also completed the courses at the Academy of Financial Markets.

What do you think equips you to do this job properly?

I feel that three factors play a significant role in the success of a business development manager. Firstly, long-standing relationships built over time in an industry that is over-traded, short of time and consequently, reluctant to engage new faces. I am fortunate enough to know many advisors, having been in the business since 1977. Being an 'old-timer' has meant that advisors are more willing to see me.

Secondly, the right attitude. Business development involves a deep respect for advisors and the knowledge that they are professionals that want to spend most of their time servicing their clients and less time engaging asset management firms. So I strive to find the happy balance of informing advisors of our market views, which I believe will play a positive role in correctly positioning their clients, whilst appreciating and respecting their time constraints.

Lastly, third party marketing requires of you to have a good understanding of why financial advisors support asset managers. My belief and experience is that advisors seek managers with deep research processes that over time will deliver results, they demand fairly priced products that are not overly complex and expect the manager to offer administrative and service support. Northstar Asset Management covers these basics.

What do you love about investing?

If undertaken correctly, the results play a meaningful role in securing the financial futures of our clients. Diversification, sound asset allocation, logical stock selection and critically, time in the markets will always deliver good results. Patience pays off!

What do you find the most challenging part of your role?

That emotion plays such a significant role in markets and emotions are the enemy of sound investment decisions. A typical piece of dysfunctional investor thinking is that large managers are safer and outperform smaller managers. The emotional angle to this is that investors feel safer in numbers, so they crowd around larger managers. The evidence on the other hand clearly dispels the belief that big is better and in fact, large managers struggle to outperform over time. It is a challenge preaching the gospel of logic in an environment ripe with emotion!

Why do you think clients will do well under you and your research team?

Because we care. Because our research is exceptional. Because we work tirelessly to generate results and place our clients first!

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Annualised returns are period returns re-scaled to a period of one year. This allows investors to compare returns of different assets that they have owned for different lengths of time. Actual annual figures are available to the investor on request. Income distributions, prior to deduction of applicable taxes, are [included/not included] in the performance calculations. NAV to NAV figures have been used for the performance calculations, as calculated by the manager at the valuation point defined in the deed, over all reporting periods. Investment performance calculations are available for verification upon request by any person. Reinvestment of income is calculated on the actual amount distributed per participatory interest, using the ex-dividend date NAV price of the applicable class of the portfolio, irrespective of the actual reinvestment date. The performance is calculated for the portfolio. The individual investor performance may differ, as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax.

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